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SUBJECT: JAPANESE BUSINESS WANTS STRONG US TIES; CONCERNED
ABOUT CHINA/KOREA

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¶1. (SBU) Summary: Incoming Japan Business Federation (Keidanren) Chairman Fujio Mitarai told the Ambassador May 23 that Japan's most important foreign relationship was with the United States. He agreed with Ambassador Schieffer that it was time to consider further integration of the U.S. and Japanese economies. Outgoing Keidanren Chair Hiroshi Okuda told the Ambassador that Japanese business worried over Japan's deteriorating political relations with Korea and China. He noted that he and Mitarai, after visiting the US embassy would visit the Korean and Chinese Ambassadors and ask them how the business community could improve relations. Turning to domestic politics, Okuda said that the LDP Presidential race was down to two candidates -- Abe and Fukuda. Okuda thought that former Prime Minister Mori and Prime Minister Koizumi would manage the situation so that only Abe or Fukuda, would run virtually guaranteeing their faction's selection in the first round. Okuda implied that he supported Fukuda when he said that Abe needed to gain experience by holding a minister portfolio in the next government. End Summary.

¶2. (U) Incoming Japan Business Federation (Keidanren) Chairman (and Canon CEO) Fujio Mitarai and outgoing Keidanren Chairman (and Toyota CEO) Hiroshi Okuda called on Ambassador Schieffer on May 23, one day prior to Mitarai's replacing Okuda as the head of Japan's preeminent business organization. Okuda noted that he had headed Keidanren for four years and it was time for a new leader. Okuda also noted he would step down as CEO of Toyota in June. Okuda said that Mitarai, who had lived and worked for 23 years in the United States, was a good friend of the U.S. relationship. Mitarai noted that he had spent more of his professional career in the United States than in any country including Japan. He had learned how to do business in America and had many American friends. He also looked forward to developing new American friends in this new role.

Promoting US-Japan Economic Integration

¶3. (SBU) Ambassador Schieffer said that the stage was set for the United States and Japan to further their economic integration. As Japan's major business organization, Keidanren could further this goal. Mitarai agreed noting that relations with the United States were more important to

Japan than any other. He looked forward to participating in the Business Roundtable and Japan-US Business Council.

Concerns over Japanese relations with China and Korea

¶ 14. (SBU) Okuda said Japanese companies were concerned over Japan's deteriorating political relations with China and Korea. He noted that he and Mitarai, after visiting the U.S. embassy would call on the Korean and Chinese Ambassadors and ask them how the business community could improve relations. He complained that Prime Minister Koizumi "did not listen" to business views on relations with Asian neighbors. Half jokingly he said he hoped that President Bush would ask the Prime Minister to improve Japan's relations with its neighbors in North East Asia. Okuda said he was also worried that Chinese President Hu Jintao's visit to the United States had not gone well. Ambassador Schieffer said that despite a few glitches, the two Presidents had engaged in a good conversation on the issues. Ambassador Schieffer also said President Bush was eager to welcome Prime Minister Koizumi to Washington to thank him for his support and friendship over the past five years.

Selecting a new LDP President

¶ 15. (SBU) Turning to domestic politics, Okuda said that the LDP Presidential race was down to two candidates -- Chief Cabinet Secretary Abe and former Chief Cabinet Secretary Fukuda. Okuda thought that former Prime Minister Mori and Prime Minister Koizumi would manage their factional politics so that only one of them would run for LDP President. This development virtually guaranteed the selection of a Mori faction member in the first round. Okuda said that other candidates -- including Foreign Minister Aso and Finance Minister Tanigaki -- had virtually no chance of election.

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They would both run, but they already knew they would lose. He discounted the chances of any other dark horse candidates, saying the selection was down to the two leading candidates. Okuda said that Fukuda was "gaining strongly" on Abe. Okuda also said that Defense Agency head Nukaga was the strongest contender from the Tsushima (former Hashimoto) faction, but he doubted that Nukaga or anyone else from that faction would run. He also said that this election represented the last chance for LDP politicians such as Fukuda, Aso and Nukaga. In the next election, younger candidates like Abe would be the main contenders.

¶ 16. (SBU) Okuda said that he had told Abe not to run this time for "health reasons." He said that he sits across from Abe at Prime Minister Koizumi's Council on Economic and Fiscal Policy meetings, and expressed concern that Abe's color was "not good." He had heard rumors that Abe had some sort of liver problems which were consistent with Abe's "dark" physical complexion. Okuda then admitted that "health" was an excuse and he thought that Abe needed to gain experience by holding a minister portfolio in the next government.

Comment

¶ 17. (SBU) Okuda appeared genuinely anxious to step down and disappear for a time from Japan's political and business world. He said that his ambition in the short term was to travel around the world using sea and road transportation. He said he wanted to drive across the United States to see places he had heard about like Route 66. (Indeed after his visit with the Ambassador he went to the Consular Section to apply for a visitors visa which is only required for persons staying for over 90 days.) It was not clear if Okuda's scenario of only one Mori faction candidate running was a prediction or more wishful thinking. His decision to back Fukuda rather than Abe is undoubtedly a reflection of his

concern about Japan-Korea and Japan-China relations. For his part, Mitarai assumed the back-seat role to Okuda at this meeting. We expect that after having formally assumed the reigns of Keidanren on May 24, he will become a much more active participant in US-Japan economic discussions. Mitarai appeared anxious to develop close relations with U.S. counterparts and talked of visiting Washington DC next year.

SCHIEFFER